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C O N F I D E N T I A L SECTION 01 OF 02 DOHA 000736

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SUBJECT: QATAR'S LOCAL BANKS RETAIN STRONG FUNDAMENTALS;
PSYCHOLOGY OF INVESTMENT MAIN CONCERN

REF: A. DOHA 705
¶B. DOHA 710

Classified By: Ambassador Joseph E. LeBaron, for reasons 1.4 (b) and (d).

(C) KEY POINTS

-- Qatar's sovereign wealth fund, the Qatar Investment Authority (QIA), announced October 13 its readiness to invest USD 5.3 billion in buying equity stakes of 10 to 20 percent in local banks. The modalities of any prospective purchase are still unclear.

-- Local bankers disagree over the sufficiency of liquidity in the system, but there is consensus that Qatar is far better insulated from global credit turmoil than the neighboring UAE. Still, concern about the future is likely to depress lending and slow down project finance.

(C) COMMENTS

-- The QIA's announcement was intended to counteract investor nervousness which had hit the Doha Stock Market (DSM). Low overall volumes and a psychological ripple effect make the DSM particularly prone to volatile swings; a sell-off by international investors has also hurt the market.

-- Local banks have strong balance sheets but ironically the QIA may be the local party most susceptible to the global financial crisis, due to its external investments and recent acquisition of equity stakes in Western banks which have subsequently lost value.

END KEY POINTS AND COMMENTS.

¶1. (C) The message from Embassy Doha's banking sector contacts continues to be that local Qatari banks are weathering the global financial storm well (see reftels). Over half a dozen bankers affirmed to Econoff the last few days that the major danger in Qatar is a psychological ripple effect from problems elsewhere, as nervous banks slow down lending and nervous investors pull their money out of the markets. These contacts assert that banking and business fundamentals remain strong in Qatar, as witnessed by continued strong profits at local banks.

¶2. (C) The DSM continues in the doldrums, however, with the overall market down 19 percent this year. The market was temporarily boosted last week when the QIA announced its readiness to inject up to USD 5.3 billion by acquiring 10 to 20 percent equity stakes in local banks. The form of any purchases is still unclear, and it remains an open question whether local banks need or want the cash. Faisal Hassan, an

investment analyst at the QIA, told Econoff October 14 that the QIA is "trying to affect market sentiments" and ensure liquidity issues do not develop. Hassan cautioned that this "internal move" does not represent a strategic shift in the QIA's strategy -- which is to invest Qatar's surplus outside the country for long-term growth -- and any local purchases would be carefully considered and structured so as not to "dilute the shares" of local investors.

¶3. (C) Reggie Fernandes, an investment manager at Commercial Bank, told Econoff October 19 that Qatar's economy is fundamentally strong due to its healthy oil and, particularly, gas-based revenue stream. The main local challenge for banks is "consumer fear and market sentiments" which are causing investors to "sit on cash." Fernandes expects global financial turmoil to shave a bit off Qatar's growth this year and the market to continue to be volatile for the next six months. Commenting on the QIA's announcement, he noted that the understanding amongst bankers is that capital is available to anyone who wants it and the QIA would likely evaluate specific proposals on a case-by-case basis. Fernandes acknowledged that "liquidity is a potential concern" due to potential spillover effects from tightened lending elsewhere, though he added that the GOQ is well-poised to guarantee banks' positions should problems develop. He expects spending and borrowing to slow in the months ahead, though the strong cash flow of local firms to ultimately help the economy continue on double-digit growth.

¶4. (C) On October 20, Chandra Kumar, an associate investment banker at Amwal, a Qatari investment bank, told Econoff that

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the local market downturn is the result of two factors: foreign funds being repatriated (i.e., foreign investors cashing in their investments here to move money elsewhere) and an "unsophisticated local investor base" which is following a herd mentality to try and protect their assets as they see alarming financial headlines around the world. Kumar asserted that liquidity is "not an issue" for local banks, even though institutions are "taking a more defensive posture" in maintaining their positions. Specifically, banks are starting to tighten up terms for personal loans and other credit vehicles which have flowed freely in recent years. The biggest effect, according to Kumar, will be a slowdown in project finance as banks take a "wait and see approach" to global financial conditions. Kumar concluded that the U.S. rescue plan is being welcomed by local investment bankers, though most analysts are left wondering how the USG decided that USD 700 billion was the right amount to inject into the system.

¶5. (C) Speaking the same day, Executive Manager for Economics and Research at Qatar National Bank (QNB) Mohamad Moabi assessed that Gulf banks are showing increasing signs of caution as they try to secure their asset base. Referencing a recent Merrill Lynch study which reported that over half of QNB's deposit base is sourced from the GOQ, Moabi pointed out that strong government revenue would maintain local liquidity. Still, he noted that deposits have decreased and there are signs of local banks actively seeking funds (such as by increasing interest rates). Moabi concluded that private projects already underway or government-based infrastructure projects would not be harmed, though he believed that increasing caution will slow down project finance and real estate borrowing.

¶6. (C) Advisor to the CEO of Standard Chartered in Qatar, Essa Al-Ebrahim, told Econoff October 19 that while local investors and bankers are closely watching developments in the United States, Europe, and Asia, they have not felt a tangible pinch in local projects or liquidity. He noted that local banks are welcoming the QIA announcement but ultimately are in a good position due to strong oversight in the past and a lack of exposure to toxic assets. Al-Ebrahim predicted

that Bahrain and the UAE would witness some bank mergers in coming months, though the Qatari landscape is likely to remain static.

¶7. (C) Echoing this assessment, Zahid Hussain Awan, Manager for International Banking Services at International Islamic Bank, told Econoff that most local banks are heavily invested locally and face limited exposure to global problems.

Moreover, Awan noted that Islamic banks are particularly well-positioned to ride out the turmoil as they hold asset-based investments, and are not exposed to the derivatives market and complicated financial instruments.

¶8. (C) One notable exception to the generally rosy assessments given above was from managers at Al-Khaliji Bank, a Qatar-based start-up. Ehsanullah Main, Senior Principal in Corporate Banking, told Econoff that Qatar is not fully insulated and liquidity is becoming tight, particularly for banks without a strong government association. He did affirm, however, that Qatar appears well-shielded from problematic real-estate-related assets afflicting many banks around the world. Moreover, he assessed that Qatar is "fundamentally different" than Dubai because it lacks a real estate investment bubble.

LeBaron